The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MAY 16, 1983 VOLUME XX, NUMBER 20

The Recovery Slows A Bit . . .

Midway through the second quarter of economic recovery, concerns are developing about its durability. Although most forecasters agreed from the start that this expansion would be slow by historical standards, a number of industries seem to be experiencing setbacks. But any worries about the recovery's demise are premature. The current lull is likely to be only temporary, since numerous positive developments suggest faster economic growth soon—possibly by the end of the current quarter.

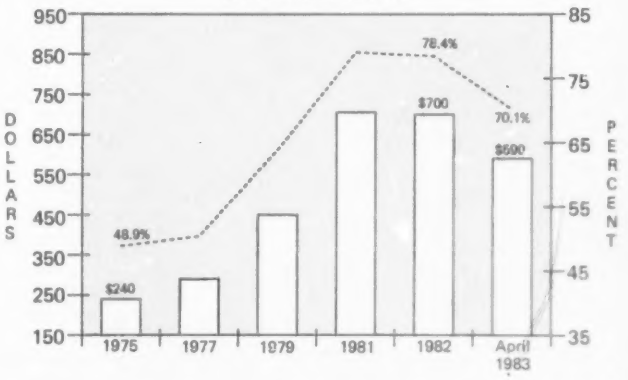
Thanks to declining interest rates, the pace of business picked up considerably late last year and the momentum continued into the first quarter. At the same time, inflation slowed to the lowest rate in decades, while most parts of the U.S. experienced the mildest three winter months (December to February) in almost 30 years.

Perhaps the greatest improvement occurred in the automobile and housing industries—the two most powerful engines behind the current recovery. Automobile sales perked up in the fourth quarter, jumping from less than five million units at a seasonally adjusted annual rate at midyear 1982 to a nearly seven million unit pace in November. Meanwhile sales of new and existing homes soared. Last May, homes sold at a 2.3 million unit annual rate clip; now they are running at a 3.3 million unit rate. In February, housing starts were running at nearly double the rate of a year ago and were 70 per cent above the level of six months before. Builders' inventories of unsold homes fell to less than 5½ months' sales in the first quarter—the lowest in seven years.

The improvement in both housing and autos has had wide ranging effects on many downstream industries. Sales of home furnishings, furniture and appliances rose by more than 11 per cent during the seven months ending in April. During 1983's first quarter, steel shipments to the appliance industry rose by 23 per cent compared with a year ago; 17½ per cent to the auto industry. Similarly, the chemical industry, the building materials industry and nonferrous metals producers, among many others, greatly benefited.

But by the end of the first quarter, some of this strong upward momentum had begun to fade. In March, housing starts fell by more than nine per cent, month-over-month, while building permits—a harbinger of future construction activity—turned down after six months of increases. Finally, the survey of purchasing managers of the nation's major companies revealed a leveling off in new orders in April, following a drop in orders to primary metals producers in March.

AVERAGE MONTHLY MORTGAGE PAYMENT (BAR) VS. % OF HOUSEHOLDS THAT CANNOT AFFORD TO BUY A NEW HOME (DOT)



. . . As Initial Pent-up Demand Is Met . . .

One factor which prompted the earlier burst of activity was lower interest rates. Once the cost of borrowing came down, many buyers quickly jumped into the market, satisfying pent-up demands, especially for such big-ticket items as housing, autos and appliances. But while this initial demand may have been relatively robust—particularly when compared with the extremely depressed levels to which sales of these items had fallen—there remain many more families with the same demands who are still priced out of the market.

The reason for this is not difficult to understand. For example, the decline in conventional 30-year mortgage rates to about 12½ per cent today from

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last year's peak of 17 per cent, saves the buyer of a median-priced home of $73,500, who puts 25 per cent down, some $200 per month. The saving is even greater for those who qualify for government-backed mortgages such as VA and FHA, which currently have a ceiling rate set at 11½ per cent. However, taking into account the rule of thumb that a household should not spend more than one-quarter of its monthly gross income for servicing its mortgage finds only about 30 per cent of first-time home buyers able to afford to buy a new home (see chart on page 1). While nearly 85 per cent of U.S. families were excluded from the market a year ago when the mortgage rate was 17 per cent, in 1975—following the end of the last prolonged recession—more than one-half of all families in the nation were able to buy a home. At today's prices, the mortgage interest rate would have to fall to eight per cent for the same proportion to qualify.

. . . But Renewed Strength . . .

Similarly, affordability remains a significant deterrent to new auto sales. The average price of a new car sold domestically was $10,240 in the first quarter of 1983. Assuming a 25 per cent down payment, at the current 15 per cent average interest rate the monthly payment on an automobile would be $270 per month, representing about 13½ per cent of the median household income. In 1975, by contrast, the monthly payment required to service a three-year auto loan was $120, representing only about ten per cent of a

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/4/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	149.012	+ 1.869	+ 6.719
Loans to Depository Inst.	.928	− .243	− .571
Float	2.291	+ .545	+ .169
Total Reserve Bank Credit	162.250	+ 2.628	+ 5.809
Treasury Deposits with Federal Reserve Banks	5.853	+ 1.688	− 3.920
Currency Outside Banks	139.069	+ .194	+11.530
Member Bank Reserves:			
Required	38.944	+ .325	− 1.171
Excess (Deficiency)	.621	+ .178	+ .177
Total Reserves Held	39.565	+ .503	− .994
Net Free Reserves	.287	+ .441	+ .923
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.881	+ .133	+19.471

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	499.5	+ 10.5‡	+ 10.3‡
M2 (April '83)	2,071.7	+ 12.7	+ 12.9
M3 (April '83)	2,452.3	+ 8.5	+ 10.3
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

† Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 5/13/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.70%	7.75%	7.80%
* Federal Agencies	8.30	8.25	8.65
* Project Notes—Taxfree (46% Taxable Equivalent)	8.61	8.61	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.35	8.50	9.05

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.13%	Jun.	8.25%
15- 29 days	8.25	Jul.	8.25
30- 59 days	8.25	Aug.	8.25
60- 89 days	8.13	Sep.	8.25
90-179 days	8.00	Oct.	8.25
180-239 days	8.00	Nov.	8.10
240-270 days	8.00		

‡ Industrial Paper—Prime			
30- 89 days	8.25%	†Federal Funds Effective Rate	8.40%
90-120 days	8.13		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83	$ 3,177	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83	$ 1,489	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83	3.1	− 1.1	− 5.1
Change in Consumer Prices (new series)*	Mar '83	1.2%	− 2.4%	0.0%
Change in Producer Prices*	Apr '83n	− 1.2%	− 1.2%	1.2%
Civilian Employment (Thousands of Persons) †	Apr '83	99,458	99,103	99,484
Unemployment as % of Civilian Labor Force †	Apr '83	10.2%	10.3%	9.3%
Personal Income*	Mar '83	$ 2,659	$ 2,644	$ 2,519
Leading Indicators Composite Index (1967=100) †	Mar '83	149.8	147.6	134.7
Industrial Production Index (1967=100) †	Apr '83n	142.6	139.7	140.2
Net Change in Consumer Installment Credit †	Mar '83n	$ 2.58	$ 0.74	$ 0.63
U.S. Merchandise Trade Balance †	Mar '83	−$ 3.63	−$ 3.58	−$ 2.43
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Mar '83	1,611	1,775	920
New Construction Expenditures*	Mar '83	$ 245.4	$ 249.3	$ 224.6
Total Business Inventories †	Mar '83n	$ 502.9	$ 508.4	$ 521.2
Total Business Sales †	Mar '83n	$ 346.0	$ 339.8	$ 344.4

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

median monthly family income. Even for those buying cars which qualify for the 9.9 per cent financing offered by the Big Three's financial arms, the payment still takes up 12½ per cent of the median family income.

. . . Is Just Around The Corner

But the apparent slowing in the pace of economic recovery should not last. Following three months of declines, retail sales posted good-sized gains in March and April. And while a sustained housing recovery hinges strictly on further declines in mortgage interest rates, there are indications that further gains in consumer demand in other areas are in the cards. For one thing, people have become much more optimistic about their near-term economic prospects—as can be seen by the big expansion in consumer credit in March. This reflects the brightening employment picture, prospects for further cuts in income tax rates, the inflation rate remaining at exceptionally low levels and expanding personal incomes.

And any pickup in final demand will quickly translate into increased production, since inventories in a number of industries are getting thin. For example, on May 1, dealers of domestic cars reported new car inventories represented only 53 days' supply. With only one exception, this represented the lowest stock level for this month in about 20 years. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/27/83)	99,741	– 1,822	–33,666
New York City (4/27/83)	25,058	– 855	– 9,123
Commercial Paper (4/27/83)	169,490	+ 1,708	– 2,484*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/27/83)	214,638	– 1,384	+ 9,105
New York City (4/27/83)	57,876	– 938	+ 586

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/27/83)	500,458	– 4,241	+17,636
New York City (4/27/83)	114,452	– 2,421	+ 3,459

Financial Markets

	Friday 5/13/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.40%	+ .10	– 4.25
180-Day Bills†	8.60	+ .10	– 4.50
Longest Bills†	8.80	+ .13	– 4.45
Recent Issues:			
9½s 4/30/85	9.42	+ .26	
10¼s 3/31/87	9.75	+ .09	
10⅛s 5/15/93 (When Issued)	10.28	+ .10	
10⅜s 11/15/12	10.43	+ .09	
Municipals:			
Bond Buyer–20 Bond Index* (5/12/83)	8.86%	+ .08	– 2.96
Blue List Total ($ Million)	$1,483	+ $ 10	+ $ 392
30-Day Visible Supply ($ Million)	$4,560	– $799	+ $2,050
Total	$6,043	– $789	+ $2,442
Corporates:			
Moody's Aa Composite (5/12/83)	11.82%	+ .01	– 2.86
30-Day Visible Supply ($ Million)	$1,224	+ $ 49	– $ 354
Stocks:			
Dow-Jones Averages:			
Industrials	1,218.75	– 13.84	+ 360.97
Transportation	547.89	– 4.21	+ 197.05
Utilities	129.61	+ .50	+ 14.04
65 Stocks	479.06	– 3.97	+ 140.21
Standard and Poor's 500 Stocks	164.90	– 1.20	+ 46.89
N.Y.S.E. Composite Index	95.07	– .40	+ 26.96
N.Y.S.E. Avg. Daily Vol. for Week (000's)	92,982	–10,090	+ 39,260

* 46% Taxable equivalent 16.41%.

† Bond equivalent.

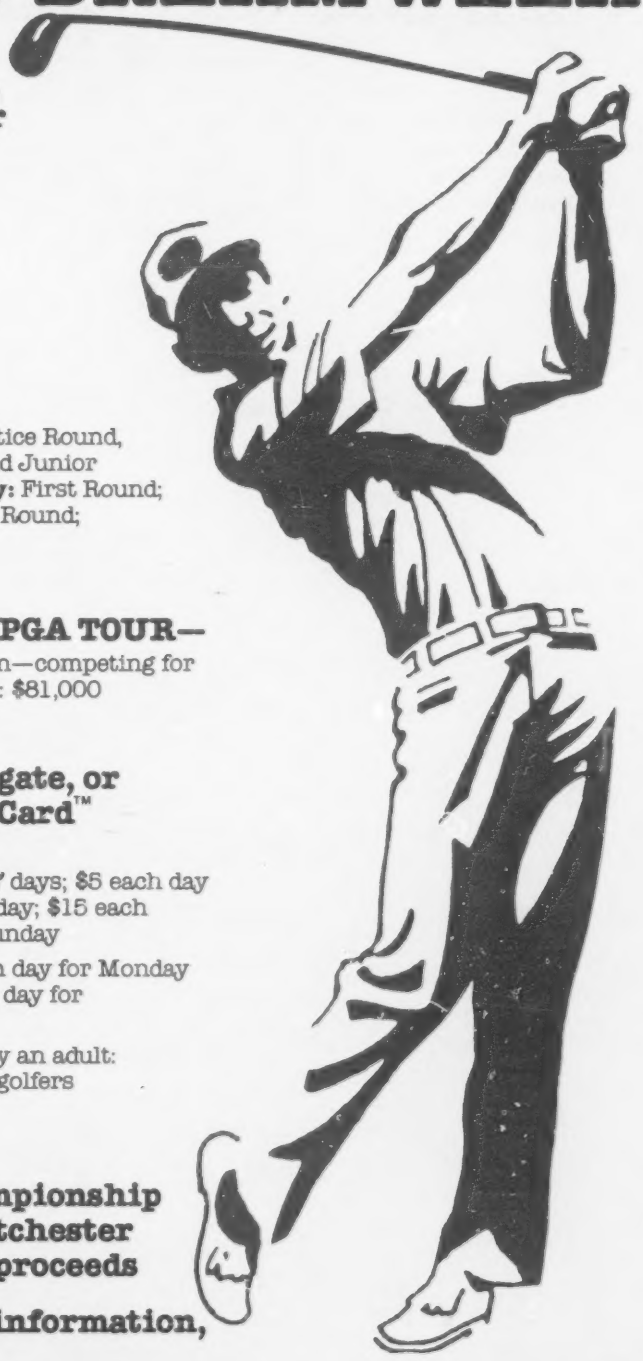
International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/13/83	Week Ago
Overnight	8.75%	8.69%
1 month	8.88	8.88
3 month	8.94	8.88
6 month	9.00	8.81
1 year	9.19	9.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.15%	11.30%
Long Term (7 to 15 yrs.)	11.25	11.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/13/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02045	48.91
Canada	.8148	1.2273
Denmark	.1150	8.6975
France	.1357	7.3680
Germany	.4085	2.4480
Italy	.0006854	1459.00
Japan	.004293	232.93
Mexico	.006689	149.50
Netherlands	.3628	2.7565
Switzerland	.4925	2.0305
U.K.	1.5653	.6389

GOLF FANS' DREAM WEEK



WHAT:
The Manufacturers Hanover Westchester Classic

WHERE:
Westchester Country Club
Harrison, New York

WHEN:
Monday, June 6, thru Sunday, June 12

Monday: Practice Round; **Tuesday:** Practice Round, National Long Driving Championship and Junior Golf Day; **Wednesday:** Pro-Am; **Thursday:** First Round; **Friday:** Second Round; **Saturday:** Third Round; **Sunday:** Final Round

WHO:
Many of the top pros on the PGA TOUR—
including Bob Gilder, defending champion—competing for $450,000 in prize money. Winner's purse: $81,000

HOW:
Tickets are available at the gate, or to charge on Visa® or MasterCard™ call 212-808-8100

Sports House and Grounds: $50 for all 7 days; $5 each day for Monday and Tuesday; $10 for Wednesday; $15 each day for Thursday, Friday, Saturday and Sunday

Grounds only: $40 for all 7 days; $3 each day for Monday and Tuesday; $6 for Wednesday; $12 each day for Thursday, Friday, Saturday and Sunday

Youngsters 14 and under, accompanied by an adult: $5 (at the gate only). On Tuesday, junior golfers 18 and under are admitted free.

WHY:
The opportunity to see championship golf and support the 13 Westchester hospitals that share in the proceeds

For ticket and tournament information, call 914-967-5356

SEE YOU THERE!

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